CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

STAFF REPORT

<table>
<tr><th colspan="4">EXECUTIVE SUMMARY</th></tr>
<tr><td rowspan="2">Borrower:</td><td rowspan="2">California Infrastructure and Economic Development Bank (I-Bank)</td><td>Amount Requested:</td><td>Not to exceed $120,000,000</td></tr>
<tr><td>Type of Issue:</td><td>Refunding and New Money</td></tr>
<tr><td>Issue New Bonds and Use of Bond Proceeds:</td><td colspan="3">I-Bank proposes to issue fixed-rate tax-exempt Infrastructure State Revolving Fund Revenue Bonds (2014A Bonds) and use the proceeds, together with other funds available to I-Bank, to (i) refund I-Bank’s outstanding Infrastructure State Revolving Fund Revenue Bonds, Series 2004 (2004 Bonds) and Infrastructure State Revolving Fund Revenue Bonds, Series 2005 (2005 Bonds, and together with the 2004 Bonds, the Refunded Bonds); (ii) finance and refinance loans to eligible borrowers for infrastructure and economic expansion projects pursuant to I-Bank’s Infrastructure State Revolving Fund Program (ISRF Program), (iii) fund the 2014A reserve fund and (iv) pay costs of issuance.</td></tr>
<tr><td>Public Benefits:</td><td colspan="3">The issuance of the 2014A Bonds is expected to enhance the I-Bank’s ability to continue to provide low-cost, long-term financing for a variety of infrastructure and economic expansion projects throughout the state.</td></tr>
<tr><td colspan="4">Financing Structure:
Type of Issue: Publicly-offered fixed-rate bonds, issued in minimum denominations of $5,000 or integral multiples thereof.
Tax Status: Tax-exempt.
Term: The bonds are expected to have principal amortizations from 2014 through 2044
Credit Enhancement: None.</td></tr>
<tr><td colspan="4">Financing Team:
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Disclosure Counsel: Stradling Yocca Carlson & Rauth
Senior Managing Underwriter: Piper Jaffray & Co.
Co-Senior Managing Underwriters: Jefferies LLC
Underwriter’s Counsel: Hawkins Delafield & Wood LLP
Financial Advisor: Lamont Financial Services Corporation
Trustee/Paying Agent: U.S. Bank National Association</td></tr>
<tr><td colspan="2">I-Bank Staff: Teveia Barnes</td><td colspan="2">Date of Staff Report: December 12, 2013</td></tr>
<tr><td colspan="2">Date of I-Bank Board Meeting:
December 17, 2013</td><td colspan="2">Resolution Number:
13-21</td></tr>
<tr><td colspan="4">Staff Recommendation:
The Staff recommends approval of Resolution 13-21 in connection with the issuance of fixed-rate tax-exempt program bonds for the Infrastructure State Revolving Fund Program.</td></tr>
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SUMMARY

I-Bank Staff (the Staff) is proposing that the Series 2014A Bonds be issued and secured pursuant to (i) an Indenture, dated as of February 1, 2014 (Master Indenture), between I-Bank and U.S. Bank National Association, as trustee (Trustee), as supplemented by a First Supplemental Indenture, dated as of February 1, 2014, between I-Bank and the Trustee (First Supplemental Indenture).

The Master Indenture as supplemented by the First Supplemental Indenture is referred to as the "Indenture." The Series 2014A Bonds, together with any additional series of bonds secured under the Indenture are collectively referred to as the "Bonds." Each series secured by the Indenture will be issued under a supplemental indenture (a "Supplemental Indenture"). Capitalized terms used but not otherwise defined in this Staff Report have the definitions given to them in the Indenture.

If approved by the Board, the Series 2014A Bonds would be issued by I-Bank to provide funds, together with other available funds of I-Bank, to (i) refund the Infrastructure Bank's outstanding 2004 Bonds and 2005 Bonds (the Refunded Bonds), (ii) finance and refinance loans (Loans), (iii) fund the Series 2014A Reserve Fund, and (iv) pay costs of issuance of the Series 2014A Bonds. Interest on the Series 2014A Bonds is expected to be payable on each April 1 and October 1, commencing on April 1, 2014, with annual principal payments due on October 1.

Due to historically low interest rates, the Staff has identified an opportunity to capture significant savings by refunding all of the 2004 and 2005 Series Bonds. To take full advantage of refunding the 2004 and 2005 series of ISRF Program Bonds, the Staff also proposes using this opportunity to issue the 2014A Bonds under an Open Indenture structure (as described in more detail below).

As described in greater detail below, the Staff is recommending that the 2008 Bonds not be refunded at this time. If the Board approves this Staff recommendation, the 2008 Bonds, of which $37,795,000 are currently outstanding, would remain outstanding after the issuance of the Series 2014A Bonds and would not be secured by the Indenture. Rather, the 2008 Bonds would continue to be secured by certain Loans pledged to the 2008 Bonds pursuant to the Prior Master Indenture (2008 Loans), and other amounts, such as interest earnings, available pursuant to the Prior Master Indenture. In such circumstance, the 2008 Loans would not constitute Pledged Loans (as defined below) under the Indenture, and would not be available for payment of the Series 2014A Bonds or any additional bonds issued pursuant to the Indenture.

PROGRAM BACKGROUND

To provide funding for the ISRF Program, the I-Bank issued the 2004 Bonds in the principal amount of $51,370,000, the 2005 Bonds in the principal amount of $52,800,000 and the Infrastructure State Revolving Fund Revenue Bonds, Series 2008 (2008 Bonds) in the principal amount of $48,375,000. The Refunded Bonds and the 2008 Bonds were issued by I-Bank pursuant to the provisions of a previous master indenture and separate series indentures (collectively, the "Prior Master Indenture"). The proceeds of the Refunded Bonds and the 2008 Bonds were generally used to fund loans made under the ISRF Program, fund reserves, and pay costs of issuance of the respective bonds. Each series of ISRF Program Bonds were issued on a fixed-rate, tax-exempt basis and are currently rated 'AA+,' ''Aa2,' and 'AA+' by Fitch Ratings, Moody's Investors Service, and Standard and Poor's, respectively.

Approximately 101 Loans have been made by I-Bank under the ISRF Program with principal amounts totaling nearly $428 million. As of December 1, 2013, I-Bank has 86 Loans outstanding with outstanding balances totaling approximately $286 million that are currently pledged to the 2004, 2005 and 2008 Series Indentures and the Prior Master Indenture. All payments on these pledged loans have generally been made on time, and are in compliance with the material financial covenants. In addition, I-Bank has three Loans with outstanding principal totaling approximately $20 million that are not pledged to any indenture. Twelve Loans have been repaid.

PROPOSED BOND STRUCTURE

For the 2014A Bonds and other bonds to be issued under the associated Master Indenture, the proposed structure uses an open indenture structure, which provides for a common pool of assets (Loans) pledged to all series of ISRF Program Bonds generally on a parity basis (Open Indenture) under that same Indenture. By allowing more than one series of program bonds to be supported by a common pool of assets/loans, the Open Indenture structure would reduce the need for tracking separate loans pledged to 3 separate series and one Prior Master and tracking separate covenants specific to each series. The Open Indenture structure would (i) ease cash flow administration, (ii) increase credit capacity for future leveraging allowing for more efficient debt service coverage as program demand increases, (iii) increase flexibility for additional bond issuances, and (iv) use one common pool of assets to satisfy bond debt service coverage ratios for both the 2014A Bonds and future bonds issued under the Indenture.

The 2004 Bonds, 2005 Bonds and 2008 Bonds used a closed indenture (Closed Indenture) model for program bonds. Such a structure was the typical structure used nationwide at the time. In a Closed Indenture model, each series of bonds is secured by borrower repayments from a separate pool of specifically identified and pledged loans. The chart below shows some key differences between the current 2004 Master Indenture/Closed Indenture and the proposed Indenture for the 2014A Bonds/Open Indenture.

Key Provisions	2004 Master Indenture	2014 Master Indenture
Relationship Between Pledged Assets & Bonds	"Closed" ~ Assets Pledged by Series	"Open" ~ Assets Pledged to All Bonds
Pledged Revenues & Assets		
Series Pledged Loans	Pledged by Series	Pledged to All Bonds
Master Loans	Pledged to All Bonds	Pledged to All Bonds
Reserve	Pledged by Series	Pledged to All Bonds
Cross Collateralized Account	Available at "End of Cash Flows": 1. Excess Revenues from each series available to All Bonds. 2. Pledged "Master" Loans available to All Bonds.	Available at "Beginning of Cash Flows": All pledged revenues available to All Bonds.
Supplemental Revenue Fund	n/a	Excess Annual Revenues Retained to Maintain Coverage
Equity Fund	Retain Net Assets within ISRF to Originate Loans	Retain Net Assets within ISRF to Originate Loans
Coverage Requirement	1.2	1.2
Annual Pledged Revenues	Loans, Earnings	Loans, Earnings, Retained Excess (Sup Rev Fund)
Supplmental Revenue Fund	n/a	Excess Revenues retained for Coverage ~ Springing Reserve
Lag Time Between Loan Payments & Bond Payments	At Least 2 months	At Least 2 months

Estimated Savings

Based on interest rates as of December 4, 2013, the chart below provides an estimated savings analysis for a refunding of the 2004 and 2005 Series Bonds:

ISRF Program Bonds	Outstanding Principal Amount	Estimated Dollar Amount of Net Present Value Debt Service Savings	% of Net Present Value Savings
Series 2004 Bonds	$38,925,000	$3,058,993	7.86%
Series 2005 Bonds	$39,515,000	$3,497,596	8.85%
Total	**$78,440,000**	**$6,556,589**	**8.36%**

Note that the information provided above are mere estimates of savings based on market conditions as of December 4, 2013. Market conditions at the time of the proposed sale of the 2014A Bonds may be markedly less favorable as compared to the December 4, 2013 conditions and, thus, could result in savings that are substantially lower than those estimated.

Due to the terms of the 2008 Bonds, it is estimated that refunding the 2008 Bonds, under current and anticipated market conditions, would result in a net loss on the 2008 Bonds for the I-Bank. Thus, the Staff recommends that the 2008 Series of ISRF Program Bonds not be refunded as part of the proposed 2014A ISRF Program Bonds and that the 2008 Bonds remain under the Prior Master Indenture structure. I-Bank Staff will continue to monitor the economic viability of refunding the 2008 Bonds into the proposed new Indenture structure.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2014A BONDS

Collateral

If approved by the Board, the Series 2014A Bonds will be limited obligations of I-Bank, payable solely from and secured by a pledge and assignment of all of I-Bank's right, title, and interest in and to (a) the Pledged Loans (as defined below), (b) the Pledged Funds and Accounts (as defined below) and all money, instruments, investment property, and other property from time to time credited to or on deposit in the Pledged Funds and Accounts and (c) all other revenues credited to or on deposit in the Pledged Funds and Accounts (collectively, Collateral).

The primary source of repayment for bonds to be issued under the Indenture, including the 2014A Bonds are Loan Repayments (as defined below) made by Borrowers under a number of Pledged Loans (Pledged Loans). Staff proposes that the Pledged Loans be comprised of all the loans previously pledged to the 2004 Bonds and the 2005 Bonds as well as those Prior Master Indenture loans that are not needed to secure the 2008 Bonds. Under the open indenture structure, future loans made under the ISRF Program would, as a general practice, be added to the pool of Pledged Loans. Pledged Loan Repayments are all payments of principal, interest or premiums on a Pledged Loan, whether as a result of scheduled payments or prepayments or remedial proceedings taken in the event of a default.

For the 2014A Bonds, under the Indenture, Pledged Funds and Accounts consists primarily of the Revenue Fund, the Interest Fund, the Principal Fund, the Series 2014A Reserve Fund (as described below), the Supplemental Revenue Fund (as described below), the Equity Fund (to the extent and as described below). Pledged Funds and Accounts include the Series 2014A Bond Proceeds Fund established pursuant to the First Supplemental Indenture.

Reserve Fund

Under the First Supplemental Indenture, a reserve fund (Series 2014A Reserve Fund) in an amount equal to the 2014A Bond Reserve Requirement will be held by the Trustee pursuant to the Indenture to secure the payment of principal of and interest on the Series 2014A Bonds. "2014A Bond Reserve Requirement" means, as of any date of calculation, an amount equal to the least of (a) 10% of the initial offering price to the public of the 2014A Bonds or (b) the greatest amount of debt service for the 2014A Bonds in any bond year or (c) 125% of the sum of the debt service for the 2014A Bonds for all bond years, divided by the number of such bond years, all as computed and determined by I-Bank and specified in writing to the Trustee.

I-Bank may modify the 2014A Bond Reserve Requirement at any time by delivering to the Trustee a Certificate of I-Bank demonstrating compliance with the coverage test (without taking into account amounts on deposit in the Supplemental Revenue Fund) as of the date of such Certificate of the Infrastructure Bank.

Supplemental Revenue Fund

Before any amounts on deposit in the Revenue Fund can be transferred to the Equity Fund, I-Bank must calculate the Coverage Test. If, based on such calculation, the Coverage Test will not be satisfied as of the date of calculation, then the amount of money that I-Bank determines to be necessary in order for the Coverage Test to be satisfied as of the date of calculation shall be transferred to the Supplemental Revenue Fund.

Equity Fund

Excess funds not needed to make debt service payments or meet other bond-related obligations eventually flow to the Equity Fund. The Restricted Assets Account and the Unrestricted Assets Account are within the Equity Fund. Most excess amounts, beyond those needed for the I-Bank's annual operating expenses would flow to the Restricted Assets Fund and be available to make new Loans, help secure the 2014A Bonds and for other ISRF Program purposes. Funds on deposit in the Unrestricted Assets Fund would also be available to make new Loans, help secure the 2014A Bonds and for other ISRF Program purposes as well as other lawful I-Bank purposes.

With a goal of maintaining and strengthening the credit rating on existing and future ISRF Program bonds, as well as demonstrating the I-Bank's commitment to support and grow the ISRF Program, staff recommends allocation of I-Bank funds in an amount not to exceed $45,000,000 for ISRF Program purposes as provided in Resolution 13-21.

REPAYMENT OF PROGRAM BONDS

Overview of Source of Repayment

The following table reflects the existing Loans pledged to the 2004, 2005 and 2008 Series Indentures and the 2004 Master Indenture; the proposed Loans that would be released from the Series and 2004 Master Indentures and pledged to the 2014 Open Indenture; and the Loans that will be pledged to the 2008 Series, the 2004 Master Indenture and the 2014 Open Indenture after the issuance of the 2014A Bonds:

As of December 1, 2013

	Existing		Released and Pledged to 2014		After Issuance of 2014A Bonds	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
2004 Pledged Loans	18	$56,080,579	(18)	($56,080,579)	-	-
2005 Pledged Loans	17	56,793,291	(17)	(56,793,291)	-	-
2008 Pledged Loans	22	69,866,512	-	-	22	$69,866,512
2004 Master Indenture	29	103,617,514	(21)	(70,636,504)	8	32,981,010
2014 Open Indenture			56	183,510,373	56	183,510,373
Total	**86**	**$286,357,896**			**86**	**$286,357,895**

2014 Open Indenture Pledged Loans. If approved by the Board, the I-Bank would pledge 56 existing Loans with an outstanding principal balance as of December 1, 2013, approximately $184 million (2014 Pledged Loans) to the repayment of the 2014A Bonds.

2008 Pledged Loans. I-Bank has pledged 22 existing Loans with an outstanding principal balance as of December 1, 2013, of approximately $70 million (2008 Pledged Loans) to the repayment of the 2008 Bonds.

2004 Master Indenture Pledged Loans. After the issuance of the 2014A Bonds, there will be 8 existing Loans with 4 borrowers with an outstanding principal balance as of December 1, 2013, of approximately $33 million pledged to the 2004 Master Indenture.

RECOMMENDATION

The Staff recommends approval of Resolution 13-21 in connection with the issuance of fixed-rate tax-exempt program bonds for the Infrastructure State Revolving Fund Program.